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C O N F I D E N T I A L SOFIA 000557

SIPDIS

FOR THE DEPUTY SECRETARY FROM AMBASSADOR PARDEW

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TAGS: [PREL](#) [PGOV](#) [MARR](#) [MOPS](#) [ECON](#) [LY](#) [IZ](#) [BU](#)

SUBJECT: SCENESETTER FOR THE DEPUTY SECRETARY'S MEETINGS
WITH BULGARIAN PRESIDENT, PRIME MINISTER AND FOREIGN
MINISTER

(U) CLASSIFIED BY AMBASSADOR JAMES PARDEW, FOR REASONS 1.5
(B) AND (D).

SUMMARY

1. (C) SUMMARY. Your visit to Sofia comes in the midst of a highly politicized review of Bulgaria's military participation in Iraq. With Parliamentary elections scheduled for June, the government has clearly decided that an Iraq exit strategy must be announced before the campaign season begins. We have repeatedly urged them to avoid a specific withdrawal date and instead focus on a strategy that links its departure with the political and security milestones contained in UNSCR 1546. Coloring the current Iraqi debate is the March 4 death of a Bulgarian soldier, likely from American fire, which is still under investigation.

2. (C) In recent months, Bulgarian officials have become more direct in their demands for tangible benefits from their Iraqi participation. They feel under-appreciated as an ally and are concerned that our economic/political relations have not kept pace with the security side. Specifically, the Bulgarians want Iraqi reconstruction contracts, a double-taxation treaty to help spur U.S. investment, participation in the Visa Waiver Program, payment of Iraqi debt and U.S. bases. They also need our help in obtaining the release of five Bulgarian nurses unjustly sentenced to death in Libya. Finally, the Prime Minister desperately wants an invitation to the White House before the elections. END SUMMARY.

BULGARIA AT A CROSSROADS ON IRAQ

3. (C) Iraq is the most important issue we face with Bulgaria. They have contributed an infantry battalion to the Polish-led MNF since 2003. Their fifth contingent is still scheduled to deploy this summer, but its fate and future contributions are uncertain. Your meetings with Foreign Minister Passy and Prime Minister Saxe Coburg-Gotha give you an opportunity to influence their ongoing search for an exit strategy. With President Purvanov, you can help ensure that the Socialist head of state does not try to undermine whatever choice the government makes. Purvanov is not a primary decision maker on this issue, but his popularity and visibility give him the ability to play the role of spoiler.

4. (C) While recognizing that the government will not likely be deterred from announcing some kind of exit strategy before the June elections, you can urge Bulgaria's leaders not to tie themselves to a specific date nor limit their future flexibility to respond to changing requirements in Iraq. If the Bulgarians do eventually withdraw from the MNF, we should press for a transfer of their troops to the NATO training mission rather than complete withdrawal. Serving under a NATO flag in Iraq is more attractive to many Bulgarians than serving under a U.S. or Polish flag. If you can announce that the U.S. military investigation into the apparent friendly-fire death of Bulgarian Sergeant Gurdi Gardev is complete, it will ease some of the pressure on the government and help to put this issue behind us.

DELIVERABLES: WHAT THEY WANT

5. (C) The government's list of potential deliverables seeks to show Bulgarian voters that participation in the Coalition has brought concrete benefits. In addition to a White House meeting for the PM and assistance with the Libyans, Bulgarian leaders may raise Iraqi reconstruction contracts for Bulgarian companies, increased U.S. investment and trade, repayment of Iraqi debt, negotiation of a treaty on the avoidance of double taxation, and

inclusion in the Visa Waiver Program. We believe you can announce progress on the last two topics while you are here:

-- Treaty on Avoidance of Double Taxation: U.S. Treasury has agreed to initiate technical discussions in April on a Treaty for the Avoidance of Double Taxation. If, as

expected, these discussions go well, the USG could announce the start of formal negotiations before the Bulgarian elections. This is a high-priority item for both the Bulgarian government and U.S. businesses in Bulgaria.

-- Visa Waiver Program: Bulgarians at all levels chafe at our visa requirements. Passy has on several occasions asked to be included in the VWP when Bulgaria joins the EU in 2007. However, Bulgaria's current B1/B2 visa refusal rate of about 30 percent must fall below three percent in order to qualify. Bulgaria has formally requested to be part of the visa waiver "road map". We are awaiting Department guidance, but post is prepared to organize a consular working group with the Bulgarians immediately.

16. (C) Other issues the Bulgarians are likely to raise include:

-- White House Meeting: The Prime Minister needs this perhaps as much as anything on his list to demonstrate that Bulgaria is a close and valued ally of the U.S. Purvanov has also requested a White House meeting, but we do not recommend this take place until after the June elections.

-- Killing of Sgt. Gardev: Initial indications are that a Bulgarian soldier was accidentally shot by U.S. forces in Iraq on March 4. We have expressed condolences and said that we are waiting for the results of the U.S. military investigation. If the results show that U.S. forces were indeed responsible, the Bulgarians expect a formal apology. The family has called for compensation.

-- Freedom for the Bulgarian nurses in Libya: This is an issue that touches ordinary Bulgarians in the way that our Iranian hostages affected Americans. There is no issue where the U.S. could potentially gain more goodwill from Bulgarians across the political spectrum. With the March 18 U.S./Bulgaria/EU trilateral in Washington, we have taken the diplomatic lead on this issue and deserve credit.

-- Iraq reconstruction contracts: Current Iraq-related military purchases from Bulgaria are approximately \$10 million, mostly small arms and ammunition for the Iraqi security forces. The Bulgarians still seek a sizeable contract for both the economic and political benefits. U.S. support for Bulgarian economic involvement in Iraq includes a contracting methodology seminar scheduled for mid-April and an Iraqi trade mission to Sofia scheduled for late May. The latter will bring to Sofia Iraqi government officials and almost 100 Bulgarian businesses from infrastructure, defense, health and finance sectors.

-- Increased trade and investment: Major U.S. investors in Bulgaria include American Standard (kitchen and bathroom products) and Advent -- which bought the state telecom BTK last year. The energy company AES recently won the right to build an electrical plant. Despite these and other investments, the U.S. remains only the sixth largest source of investment in Bulgaria (\$532 million).

-- Iraqi debt: As a percentage of GDP, Bulgaria claims to hold more Iraqi debt than any country in the world Q- USD 1.2 billion -- much of it accumulated from arms sales during the Iran-Iraq war. Bulgaria is not a member of the Paris Club and has not formally accepted the principle of 80 percent debt reduction.

-- Basing of U.S. Forces: As part of the global repositioning of U.S. forces, the U.S. European Command is interested in setting up a forward operating location in Bulgaria. There have been some 30 visits to Bulgaria by USG officials to discuss the issue, but the government of Bulgaria is awaiting a formal USG decision.

PROBLEM AREAS

17. (C) Despite its strong economic track record, the government has been much less successful in curbing corruption and organized crime, which are both endemic here. If there is a shortcoming that could hamper Bulgaria's political and economic development, this is it. Much greater political will is necessary to strengthen the rule of law generally and the judicial system in particular.

18. (C) Protection of intellectual property rights is a

serious concern, and the Bulgarian IPR regime does not properly protect U.S. rights holders. The USG has also been negotiating with Bulgaria to drop their tariff rates for U.S. products. Some, for U.S. distilled spirits, are much higher than the rate for similar EU-produced goods. The USG is currently reviewing whether to withdraw some of Bulgaria's GSP benefits on targeted products.

DOMESTIC CONTEXT

9. (U) Membership in the European Union is Bulgaria's top foreign policy goal. The Prime Minister is scheduled to sign the EU Accession Treaty on April 25. Bulgaria should join the EU with Romania on January 1, 2007. The macro-economic situation is strong, giving the current government an economic record that most politicians would be glad to run on. Annual GDP growth for 2004 is projected at 5.8 percent, and for 2005 is estimated at between 5 and 5.5 percent (total estimated 2005 GDP is \$27.5 billion). Inflation is moderate at 4 percent for 2004, and unemployment dropped from over 20 percent four years ago to 12.7 percent in 2004.

10. (U) The current government is also widely recognized as having markedly improved Bulgaria's fiscal situation, turning chronic budget deficits into small surpluses. FDI for 2004 was \$2.6 billion (10 percent of GDP), and all but one credit agency has rated Bulgarian debt at above investment grade. Progress is evident everywhere, but Bulgaria is starting from a low base: average per capita income is only 29 percent of the EU-25 in terms of purchasing power parity. Other areas of concern are the large current account deficit (7.5 percent for 2004) and rapidly increasing credit growth (currently 50 percent).

11. (C) The Socialists are leading in the polls and have made Bulgaria's withdrawal from Iraq a major campaign theme. The most recent opinion poll shows that roughly two-thirds of the Bulgarian population favors withdrawal from Iraq either immediately or right after the June elections. This, combined with the killing of another Bulgarian soldier on March 4, has put the government on the defensive exactly three months before the elections. While a Socialist victory would not be a disaster for us, it would make protecting a wide range of U.S. interests more difficult. All the more reason, in our view, to invite Simeon to the White House.

The Personalities

12. (C) While the Prime Minister's approval ratings have edged up in recent months he is generally perceived as enigmatic and aloof. He often appears indecisive, but his hands-off management style seems to serve him well politically; polls show that many Bulgarians do not blame him for the government's mistakes and support a second mandate. The President, formerly head of the Socialist Party, is Bulgaria's most polished senior politician. He has used his position to strike a balance between Bulgaria's responsibility to the Coalition and the Socialists' opposition to the widely unpopular deployment of Bulgarian troops in Iraq. He has also expanded his rather restricted authorities into the power vacuum created by the Prime Minister. Passy is the most strongly and consistently pro-American voice in the government, but he is currently fighting an uphill battle on Iraq.

Baghdad minimise considered.